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SUBJECT: MEXICAN CONGRESS APPROVES 2008 BUDGET

REF: MEXICO 4871

Summary

¶1. (U) Mexico's Chamber of Deputies (lower house) on November 12 approved a USD 236 billion spending bill, the largest in the country's history. The income part of the budget package was passed by both the Chamber and the Senate last month, but the spending bill only requires lower house passage. The budget includes USD 14 billion more than the Calderon government initially proposed, largely due to extra resources from the fiscal reform passed in September. Spending on the government-defined categories of social development, economic development, public security, and the environment are set to increase by a real 8.8%, 13.6%, 39.4%, and 30.1%, respectively. Legislators cut budgets for several autonomous bodies, including the Federal Electoral Institute. End Summary.

A Brief Synopsis of the 2008 Budget

¶2. (U) Mexico's Chamber of Deputies on November 12 approved the 2008 spending bill with a vote of 449 to six, with three abstentions. The income part of the budget package was passed by both the Chamber and the Senate last month, but the spending bill only requires lower house passage. President Calderon still has to sign and publish the budget in the Official Gazette before it becomes law.

¶3. (U) The budget plan allows for USD 236 billion ($2.57 trillion pesos) in spending -- a figure that is USD 14 billion ($152.5 billion pesos) higher than what the executive originally proposed and 9.8% higher in real terms than the approved 2007 budget. The budget is balanced when certain off-budget items are excluded. The USD 14 billion of

additional revenue comes largely from the overhaul of the country's tax laws that Congress approved in mid-September (USD 11.7 billion), but also from changes Congress made to the macroeconomic assumptions used in the budget calculations. A noteworthy change was the increase in the Mexican oil mix price estimate from USD 46.60 to USD 49.00 per barrel.

¶4. (SBU) Regarding revenues, non-oil related tax income is expected to reach a record level of 11.5% of GDP. Finance Secretary Carstens earlier this week said publicly that

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Pemex, the state-owned energy company, will account for 34% of total government revenue next year, down from 37% this year. He added that oil will make up a smaller percentage of government revenue in the future. (Comment: This is an important development because the less Mexico relies on petroleum and volatile oil prices for its tax intake, the better. End Comment.)

¶5. (U) Approved programmable expenditures for 2008 total USD 174 billion ($1.9 trillion pesos), a figure that represents 18.1% of GDP, its highest proportion since 1988. Public investment levels are expected to reach their highest levels in the last 20 years. Budgeted investment will represent 3.6% of GDP, while the "investment driven by the public sector" item -- which includes expenditures for Pidiregas (long-term infrastructure projects) -- will represent 5.0% of GDP.

¶6. (U) Spending on the government-defined categories of social development, economic development, public security, and the environment is set to increase by a real 8.8%, 13.6%, 39.4%, and 30.1%, respectively. The Chamber approved USD 92

million to support high-tech urban small- and medium-sized businesses. Carstens this week said that a record USD 101 million will go to fund social programs -- a move that the government undoubtedly hopes will help reduce persistent poverty.

¶7. (U) The following government ministries received the largest spending increases in real terms compared to 2007: Tourism (79.3%), Communication and Transportation (43.8%), Public Security (39.4%), Social Development (37.8%), and Environment (30.1%). The historically large hike for the Secretariat of Tourism is important because this industry has

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lagged in recent years, in part due to the small amount of resources dedicated to this ministry. While the Secretariat of Agriculture only received a 6.7% real increase in funding, the Chairman of the Chamber's Agricultural Committee said that the budget approved for the sector was historical. He added that these resources will be channeled to improve the sector's competitiveness and productivity. Funding for Pemex and ISSSTE (the social security institute for government workers) increased by almost 11%. Federal government resources going to the federal entities for both contributions and shared revenues will total $812 billion pesos, 12.7% higher in real terms than in the 2007 budget.

¶8. (U) Legislators cut budgets for several autonomous bodies, including the Federal Electoral Institute, the Supreme Court of Justice, and the National Human Rights Commission. Among the ministries, the General Attorney (-2.4%), Presidency (1.5%), and Finance and Public Credit Secretariats received the smallest spending increases.

Comment

¶9. (SBU) The recently passed tax reform and high oil prices

have allowed Mexico to pass the largest budget in its history. The beneficiaries of this larger budget in the government include Pemex, the federal entities, and several secretariats -- including the Secretariat of Communications

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and Transportation, which will boost much-needed infrastructure investment. This, together with increased funding for social and economic development, will not only help bolster the economy in the face of a slowdown in the U.S., but will also directly benefit the Mexican public.

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